



HELPING BRITAIN PROSPER

Lloyds Banking Group
Half-year update 2018



Our differentiated, customer focused business model continues to deliver with our multi brand, multi channel approach, cost leadership, low risk positioning, investment capacity and execution capabilities positioning us well for sustainable success in a digital world.

António Horta-Osório
Group Chief Executive

Dear shareholder

We have delivered a strong and sustainable financial performance in the first half of 2018 with increased statutory profit, higher returns and a strong capital build. We have made significant progress in the past six months and are already delivering against the ambitious targets we set out in our new transformational strategy in February. As a simple, low risk, customer focused financial services provider we are well placed to succeed in a digital world and help Britain prosper.

Operating environment

The UK faces a period of political and economic uncertainty in the run-up to the UK's departure from the European Union. The UK economy remains resilient and, excluding the impact of adverse weather, continues to demonstrate robust growth. The economy is benefiting from the highest employment rate in half a century. Household indebtedness remains significantly below pre-crisis levels, with strong growth in the world economy also positive for UK exports.

Financial Performance

In the first six months we have again delivered a strong and sustainable financial performance. Underlying profit increased 7 per cent to £4.2 billion, driven by higher income and lower total costs, with statutory profit after tax increasing 38 per cent to £2.3 billion. Earnings per share increased 45 per cent to 2.9 pence per share reflecting the improved profitability while statutory return on tangible equity continued to increase and is now 12.1 per cent. Asset quality remains strong and we have seen no deterioration in our lending portfolios. The strong performance has also enabled strong underlying capital build, with the Group's key CET1 ratio increasing to 15.1 per cent.

The Board has recommended an interim ordinary dividend of 1.07 pence per share, in line with the Group's progressive and sustainable ordinary dividend policy. Good progress has also been made on the share buy back that was announced with full year results. It commenced in March and is now nearing completion. To date, we have bought back approximately 1.2 billion shares, which means around 75 per cent of the £1 billion buy back has now been achieved.

1.07p

interim dividend per ordinary share

£2.3bn

statutory profit after tax, up 38%

c£750m

share buy back fulfilled to date

Dividend

Key dates for the payment of the dividend are:

16 August 2018 Shares quoted ex-dividend date

17 August 2018 Record date

26 September 2018 Dividend paid

Other dates for your diary

25 October 2018 Q3 interim management statement

20 February 2019 Full year 2018 results

Business and strategic progress

In the first six months we have made significant business progress, successfully delivering Open Banking, launching Lloyds Bank Corporate Markets and continuing the planned integration of the MBNA credit card book and Zurich's UK workplace pension and savings business. These provide a strong platform for the next phase of our development.

In February we announced an ambitious strategy to transform the Group for success in a digital world. We have made a strong start in implementing the strategic initiatives which will further digitise the Group, enhance customer propositions, maximise our capabilities as an integrated financial services provider and transform the way we work.

The Group's cost discipline continues to be a competitive advantage. It is enabling greater investment capacity and increased returns. Our market leading cost efficiency and reducing cost base are being achieved together with more than £3 billion of strategic investment over the next 3 years, a 40 per cent increase on the previous plan. This underpins the transformation required to exceed customer expectations and succeed in a digital world. The transformation will generate further cost reductions, allowing us to reduce our operating costs to less than £8 billion in 2020. It will also enable us to further enhance the customer experience and continue to both improve our financial performance and help Britain prosper.

We operate the UK's largest branch network and the UK's largest digital bank which continues to grow with active users increasing to almost 14 million, including around 10 million mobile banking users. In the first half we made improvements to our mobile app which enhanced functionality and will reduce future delivery times. We have also continued to reshape our branch network which includes our recently opened flagship branches that demonstrate improved productivity and customer satisfaction. We have also added to our fleet of mobile branches, which now cover 190 locations, supporting our commitment to maintain the largest branch network in the UK.

Our increased technology spend, which now represents about 15 per cent of the Group's cost base, is allowing us to create efficiencies and make banking easier for customers. For example, we have introduced voice biometrics so that customers can now use their voice as their password for telephone banking, providing an improved customer experience and reducing call times. This has benefited our vulnerable customers who sometimes struggle to pass security with PINs or memorable information. In Insurance we have started to put in place a new platform which will enable customers to see all their workplace pensions, savings and bank accounts in one place – a first for the industry.

As part of our Helping Britain Prosper Plan we have continued to boost support to key sectors of the economy. In the first half of the year, we launched a £2 billion Clean Growth Financing Initiative, providing discounted funding to help British businesses reduce environmental impacts and benefit from the transition to a low carbon economy. We have lent £6 billion to first time buyers and also continued to build lending to targeted segments, including SME and consumer finance, whilst growing financial planning and retirement assets under administration by 14 per cent, or over £9 billion.

Outlook

Our differentiated, customer focused business model continues to deliver with our multi brand, multi channel approach, cost leadership, low risk positioning, investment capacity and execution capabilities positioning us well for sustainable success in a digital world. As a result we believe that this strategy will allow us to continue to help Britain prosper whilst continuing to deliver strong and sustainable returns for shareholders.

I thank you for your continuing support and look forward to reporting on further progress at the year end.



António Horta-Osório
Group Chief Executive

Helping Britain Prosper Plan update

>500,000

start-up businesses supported since 2014

>£53bn

of lending to first-time buyers since 2014

>£72m

donated to the Group's independent charitable Foundations since 2014

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Statements to note

This 2018 half-year update should be read in conjunction with Lloyds Banking Group's 2018 half-year results. This 2018 half-year update is provided for information purposes only, and is not intended to be a substitute for reading the 2018 half-year results.